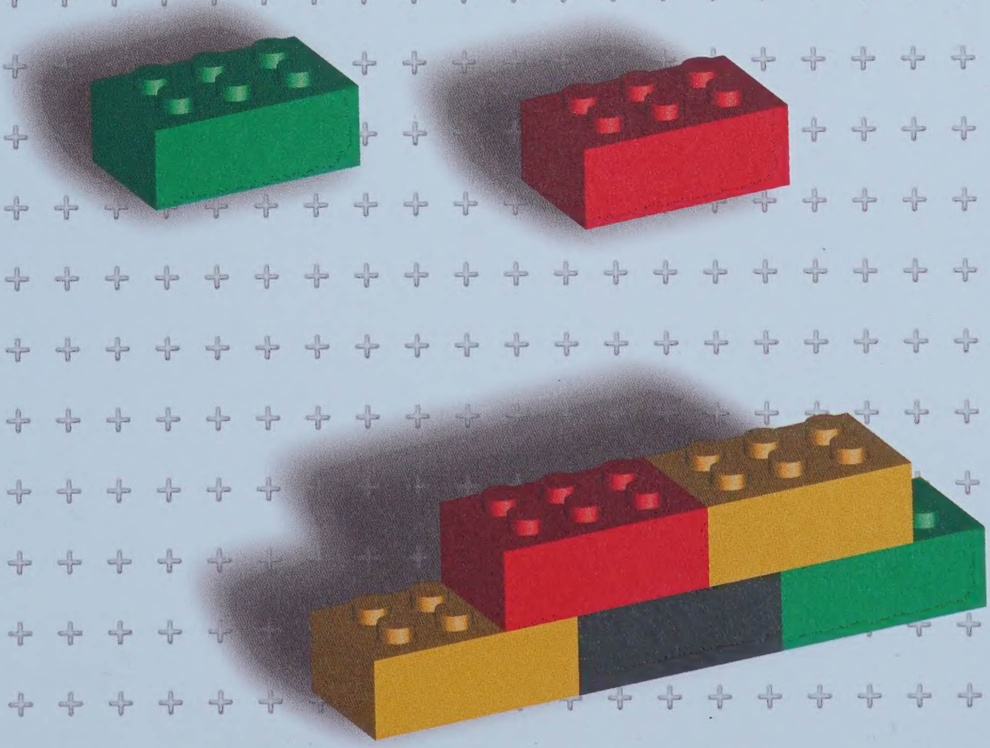
SADDLE Resources Inc.

...building for the future.

Annual Report 99



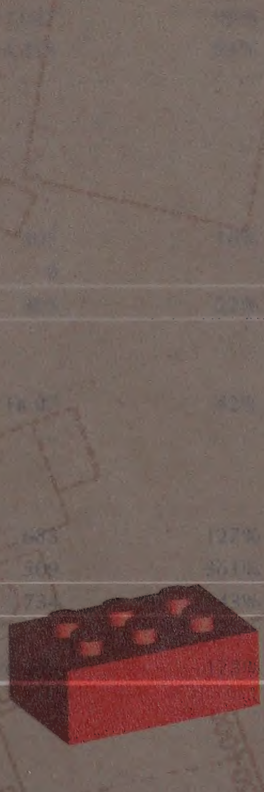
SADDLE RESOURCES INC. ("SADDLE") IS AN EMERGING ENERGY COMPANY ENGAGED IN OIL AND GAS EXPLORATION AND PRODUCTION IN WESTERN CANADA. THE COMPANY'S PRIMARY AREA OF FOCUS IS THE RAINBOW LAKE AREA OF NORTHERN ALBERTA. RECENT ACQUISITIONS AND DRILLING SUCCESS HAVE RESULTED IN SIGNIFICANT GROWTH. SADDLE'S CURRENT PRODUCTION IS APPROXIMATELY 1000 BOEPD, COMPRISED 72% OF LIGHT OIL PRODUCTION AND 28% OF NATURAL GAS. ADDITIONAL PRODUCTION BROUGHT ON STREAM DURING 2000 IS EXPECTED TO FURTHER ENLARGE THE PRODUCTION BASE. A LARGE UNDEVELOPED LAND BASE, EXTENSIVE FACILITY INFRASTRUCTURE AND A SOLID INVENTORY OF LOW TO MEDIUM RISK DRILLING LOCATIONS HAVE POSITIONED SADDLE TO CONTINUE GROWTH IN PRODUCTION, CASH FLOW AND ASSET VALUE THROUGH THE COMING YEARS. THE COMPANY'S SHARES ARE LISTED FOR TRADING ON THE CANADIAN VENTURE EXCHANGE UNDER THE SYMBOL "SRI".

Annual General Meeting

Saddle Resources Inc. invites shareholders to attend the Annual General Meeting on Thursday June 15, 2000 at 9:00 a.m. at the Westin Hotel located at 4th Avenue and 3rd Street S.W., Calgary, Alberta.

Building for the future.

99



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Highlights

	Year ended Dec. 31, 1999	Year ended Dec. 31, 1998	% Change
FINANCIAL			
Gross revenue	$ 3,969,074	$ 2,108,978	88%
Cash flow from operations	$ 1,686,774	$ 1,128,378	49%
per share – basic (wt. avg.)	$ 0.21	$ 0.21	0%
per share – fully diluted (wt. avg.)	$ 0.16	$ 0.21	-23%
Net earnings (loss)	$ 433,492	$ (3,145,056)	–
per share – basic (wt. avg.)	$ 0.05	$ (0.59)	–
per share – fully diluted (wt. avg.)	$ 0.04	$ (0.58)	–
Capital expenditures	$ 10,017,170	$ 7,132,828	40%
Working capital surplus (deficiency)	$ (412,506)	$ (5,081)	
Long term debt	$ 2,403,921	$ 1,050,000	129%
Common shares outstanding			
basic	8,637,218	7,735,714	102%
basic (weighted avg.)	8,187,218	5,369,136	52%
fully diluted	16,275,720	8,233,047	98%
fully diluted (weighted avg.)	10,497,381	5,384,415	95%
OPERATIONS			
Average daily production			
Crude oil & NGL's (Bbls/d)	353	305	16%
Natural gas (Mcf/d)	198	0	
Oil equivalent (Boe/d)	373	305	22%
Average product prices			
Crude oil & NGL's ($Bbl)	$ 28.87	$ 18.97	52%
Natural gas ($Mcf)	$ 3.13	$ –	
Reserves – proved and probable			
Crude oil & NGL's (Mstb)	1,550	683	127%
Natural gas (Mmcf)	2,345	509	361%
Oil equivalent (MBoe)	1,785	734	143%
NPV @ 15% ($000)	$ 17,308	$ 6,235	178%

Report to Shareholders

Bill Ward
President

Ken Broadhurst
Senior Vice President

1999 was a year of significant change and growth for Saddle. We are pleased to report to our shareholders that the efforts undertaken by the Company in 1999 have placed us in an excellent position for future growth. The depressed crude oil prices that we experienced in 1998 saw a dramatic reversal during the second half of 1999. The prices we are now receiving for our crude oil and natural gas, combined with our significant prospect inventory, provide us with a very positive outlook moving forward. A key component of our effort to "**build for the future**" is to take firm control of our operations at every opportunity. The construction of a strategically positioned facility in our core area of Rainbow Lake demonstrates our ongoing commitment to control and is a key building block in our plan for sustainable future growth.

1999 Results and Review

Depressed crude oil prices in 1998 and early 1999 provided limited cash flow to conduct a meaningful drilling program in the winter drilling season of 1998/1999. The strategy undertaken by Saddle during this period was to concentrate on a number of lower cost re-completion and reworking opportunities, while sourcing and evaluating prospective acquisition candidates. The exploitation operations conducted in early 1999 proved to be successful and enabled Saddle to increase Company production during a period of minimal drilling activity.

In June of 1999 Saddle acquired an initial 5 percent working interest in a $12,000,000 production and property purchase in Rainbow Lake, with a six month option to acquire an additional 45 percent working interest in the property. Saddle seized the opportunity during a brief window in the equity market in September of 1999 to issue 5,650,000 Special Warrants at a price of $0.95 per Special Warrant and 1,350,000 Flow-Through Special Warrants at a price of $1.05 per Flow-Through Special Warrant for gross proceeds of $6,785,000. In October of 1999 Saddle used these proceeds to exercise its option and successfully closed the purchase of an additional 45 percent working interest in the Rainbow Lake property. The acquisition brought with it numerous exploitation, development and exploration opportunities. The evaluation of these opportunities has yielded a number of high quality drillable prospects which Saddle commenced drilling during the 1999/2000 winter drilling season. Saddle has completed its 1999/2000 winter drilling program with excellent results. The program consisted of nine wells which resulted in three oil wells, five gas wells and one abandoned well for a success rate of 89 percent.

Saddle entered into 1999 producing 225 Boe/d and exited the year producing 700 Boe/d. Average daily production increased by 22 percent in 1999 to 373 Boe/d versus 305 Boe/d in 1998. The acquisition of a meaningful interest in the Rainbow Lake property during the fourth quarter 1999 resulted in significant increases to Saddle's production and cash flows during the fourth quarter. The full impact of the acquisition will be more fully realized by year end 2000. Saddle's net production at the date of this report was approximately 1,000 Boe/d.

Third party facilities were unable to handle the high volumes of fluids resulting from Saddle's successful operations, resulting in a 53 percent increase in operating costs during 1999. Saddle recognized the need to construct its own facility in order to control its production and decrease its operating costs. In October of 1999 Saddle commenced the design and construction of a strategically positioned oil battery to handle the majority of its existing and future production volumes. This facility was completed and placed on production on April 7th, 2000. The new facility we have constructed provides us with an essential component for our plans for future growth.

Outlook for 2000

The 1999/2000 winter drilling program was very successful and clearly identified two exciting new shallow gas prospects on Saddle owned lands in the Rainbow Lake area. Our gas discoveries provide Saddle with two significant new projects within an existing core area where Saddle already owns extensive roadway and pipeline infrastructure. Saddle has identified a number of high quality future drilling locations for both shallow gas and Keg River oil.

The construction of our major facility at Rainbow Lake is a key "**building block**" for the future of Saddle. Saddle currently has 12 operated wells tied into the facility including 4 new wells which were successfully drilled during the winter drilling program. The facility is currently processing 6000 barrels of fluids per day and 2.5 million cubic feet of natural gas and is capable of processing 18000 barrels of fluids per day and 3.1 million cubic feet of natural gas. Additional fluid and natural gas volumes will be tied into the facility by Saddle and outside third parties during the upcoming year.

Saddle is very pleased with the solid framework and exciting opportunities we have developed as we move into our next phase of growth. Saddle acquired the majority of its working interest in the

new Rainbow properties in the fourth quarter of 1999. The dedication of the staff of Saddle has made it possible to assimilate the properties and conduct a considerable amount of essential activity within a short time frame allowing us to take full advantage of the winter drilling season. The abundance of high quality prospects identified on Saddle owned properties combined with higher crude oil and natural gas prices have placed Saddle in an enviable position relative to most companies.

Saddle recognizes that the equity markets are not readily accessible to the oil and gas industry at the present time. Saddle is evaluating alternative growth options such as acquisitions and mergers in order to place our shareholders in a position to best maximize the substantial opportunity base that Saddle has created on its Rainbow Lake property.

The management and staff of Saddle are committed to ensuring that firm financial and operational controls are in place as we move forward with our plans for growth. We believe that Saddle has made tremendous headway during 1999 and we are excited about the number of attractive opportunities we have available to us as we move towards the next phase of our development.

We look forward to updating shareholders at our upcoming Annual Meeting on June 15, 2000, and invite you to call us at any time to discuss the progress of your Company.

On Behalf of the Board of Directors

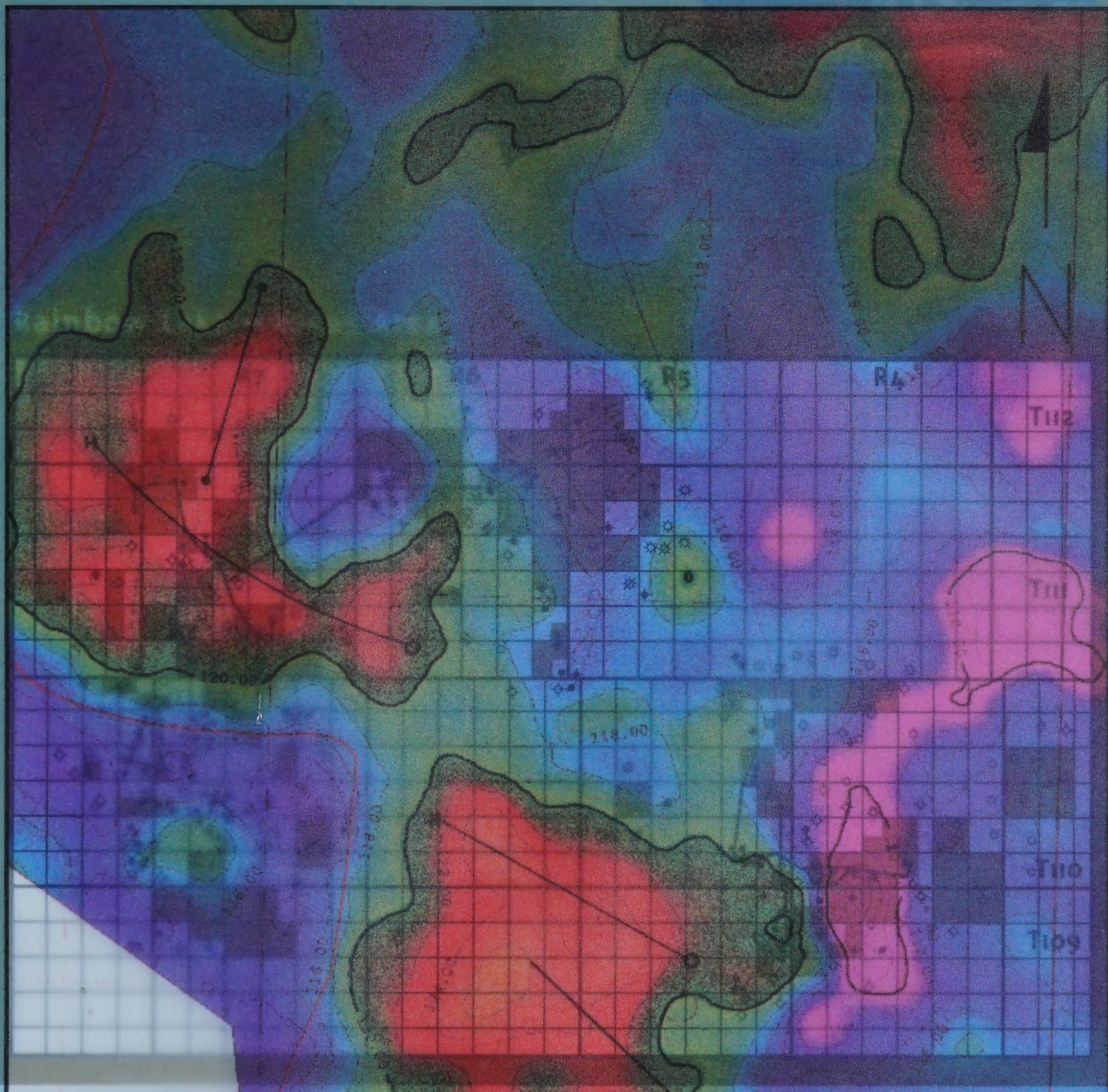
William S. Ward
President

Ken Broadhurst

Kenneth L. Broadhurst
Senior Vice President

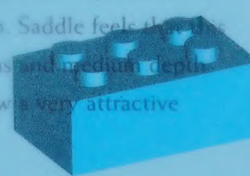
May 8, 2000

Exploration
the key to growth



RAINBOW LAKE FOCUS AREA

Saddle continued to focus [illegible] percent of its efforts in the Rainbow area of Northern Alberta in 1999. During the year, Saddle significantly expanded its asset base primarily through the Rainbow property acquisition. This property purchase fully complemented Saddle's existing land base and infrastructure and placed the Company in a position to be a dominant explorer and producer in the northern part of the Rainbow basin. The Rainbow area has long been known for its prolific Keg River oil production, and in recent years has also developed into an impressive area for shallow gas production. Saddle feels that the combination of shallow gas and medium depth oil reserves makes Rainbow a very attractive basin in which to explore.



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On Behalf of the Board of Directors

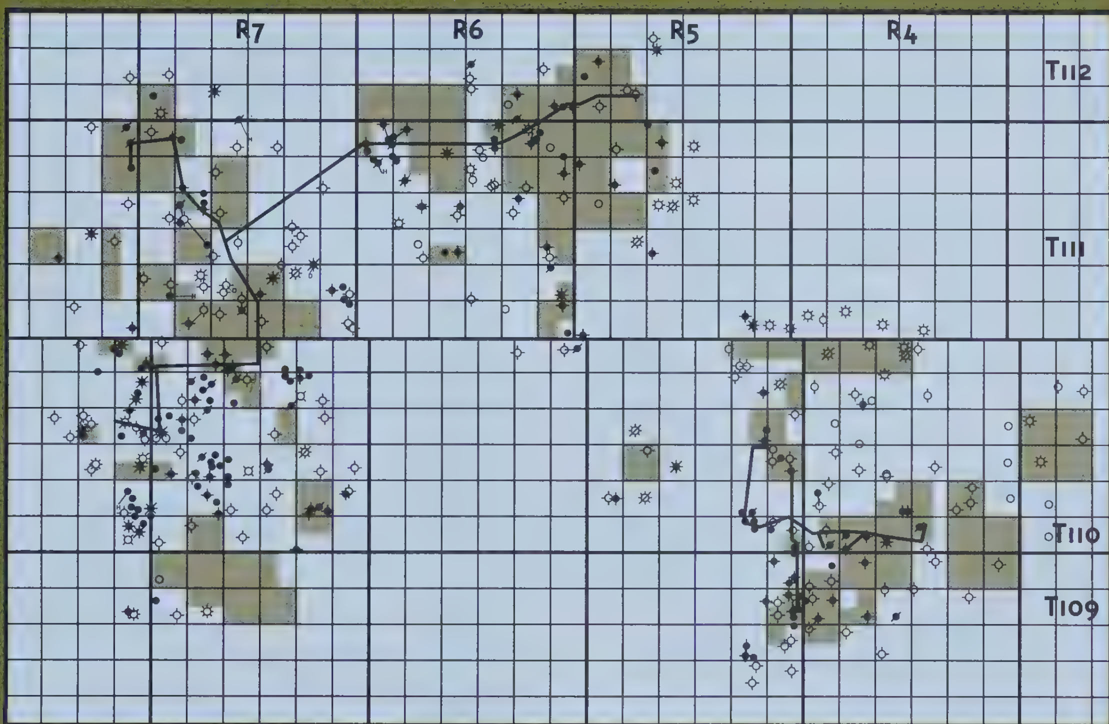
William S. Ward
President

Kenneth [illegible]
Senior Vice President

May 8, 2000

From left to right: Kevin D. Bibault, Vice President of Engineering, William S. Ward, President and Kenneth L. Broadhurst, Senior Vice President.

Rainbow Lake – Focus Area



RAINBOW LAKE – FOCUS AREA

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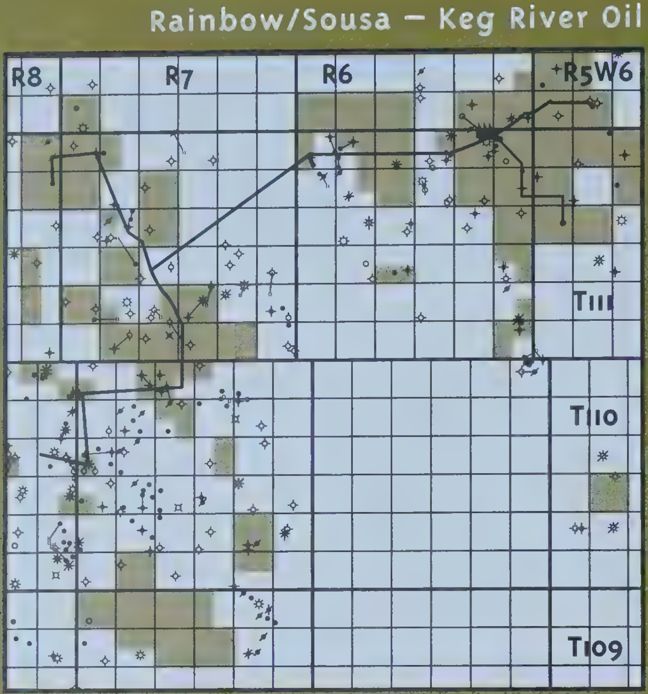
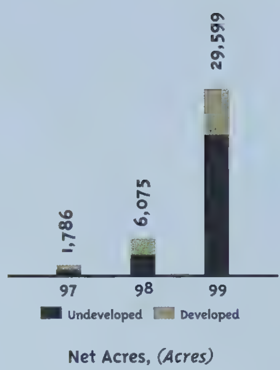




Land Holdings

Land holdings are a significant part of the exploration process. Saddle has assembled a very strategic and prospect rich land inventory which will sustain high levels of drilling activity for both Keg River oil and shallow gas for the next several years. This facet of the exploration cycle has placed Saddle in a very enviable position.

At December 31, 1999, Saddle's total land holdings were comprised of an interest in approximately 63,523 gross acres and 29,599 net acres. During 1999, Saddle increased its net undeveloped land holdings to 24,771 acres, from 4,695 acres in 1998. This 427 percent increase in undeveloped land holdings is attributable to the major acquisition made by Saddle in the Rainbow Lake area and the purchase of selective lands at Alberta Crown land sales. Seaton-Jordan & Associates Ltd. independently evaluated the fair market value of the undeveloped lands to be $1,696,301 at December 31, 1999.

The land inventory now consists of 24,771 net undeveloped acres (52,351 gross) and 4,828 net developed acres (11,172 gross). Saddle's average working interest in the undeveloped acreage is 46.43 percent. Saddle will continue to evaluate and acquire prospective acreage throughout 2000.

KEG RIVER OIL

The Rainbow area produces high quality light crude oil (38 to 48 degrees API) from depths of 1500 to 2000 metres. The principle oil producing horizon in the Rainbow area is the Keg River formation of Devonian age. The Keg River formation consists predominantly of dolomitized pinnacle, patch reef and fringing reef deposits, as well as bank margin facies. Keg River oil exploration is largely seismic oriented. Successful reef exploration involves identification of reef structures and porosity development within such structures. Saddle has compiled an extensive seismic data base which consists of approximately 80 square miles of 3D data and 175 miles of 2D data. This data base has delineated a large number of Keg River drilling locations on Company lands. Management believes that the current Rainbow oil prospect inventory will keep the company's drilling program active for at least two more years, which positions Saddle for continued significant growth.

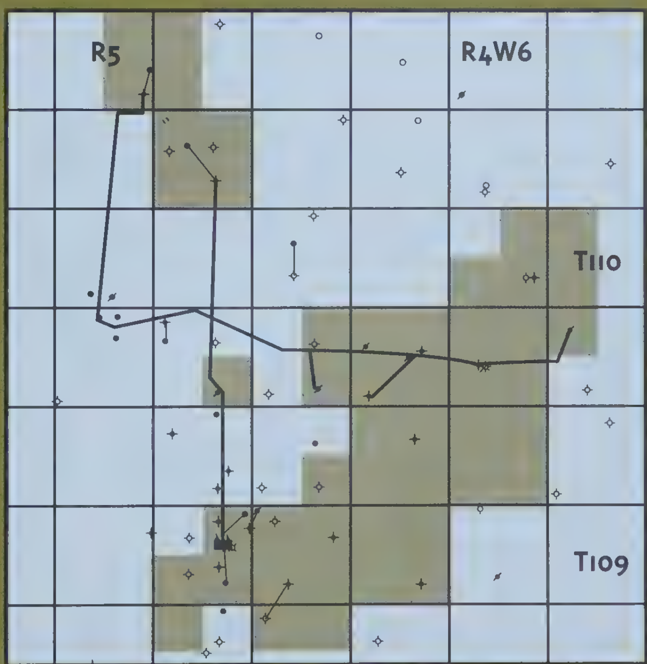
Saddle has established two principle areas of Keg River exploration and development in Rainbow, each serviced by Company operated production facilities. The Company refers to these areas as Rainbow/Sousa and Rainbow East.

Rainbow/Sousa – Keg River Oil

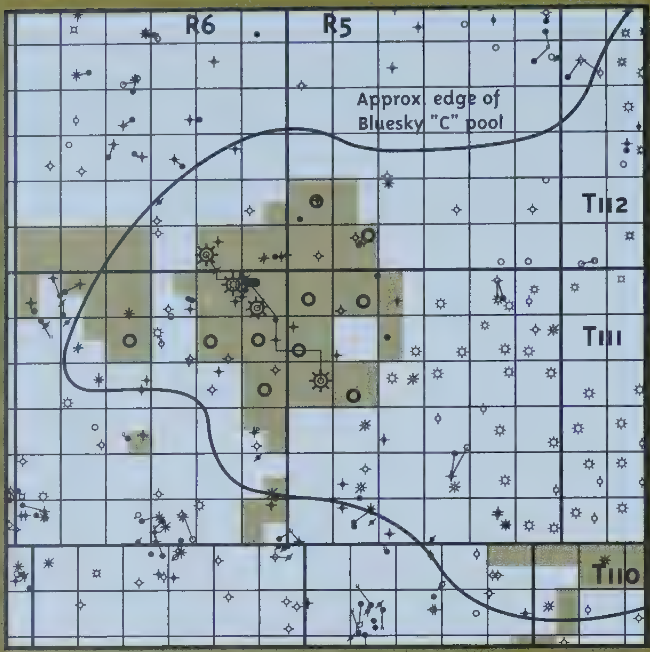
Keg River oil production is typified by high initial productivity that experiences decline when water begins to be produced with the oil. Once water production commences, Saddle believes that the most effective way to produce the Keg River reservoirs is to produce high fluid volumes. Without sufficient facilities to transport and process the oil and water production, profitability can be quickly eroded. Recognizing this, Saddle began design and construction of a significant oil processing facility in the Rainbow/Sousa area located at 13-36-111-6 W6M during the fourth quarter of 1999. The project was completed and commissioned for service in April 2000. The 13-36 facility, together with the pipeline infrastructure, is key to allowing Saddle to fully exploit it's land holdings in the vicinity of this network. In addition to Saddle's currently producing oil wells, the Rainbow/Sousa area contains 10 to 15 potential drilling locations on Company lands which, if successful, would be tied into the 13-36 facility. Saddle has also identified several existing wells that are candidates for high volume pump installation.

Rainbow East – Keg River Oil

The Rainbow East area has gained significant importance in Saddle's operational plans. During 1999, Saddle owned a 9.17 percent non-operated working interest in an oil processing facility located at 9-25-110-5 W6M. In the first quarter of 2000 Saddle increased its working interest to 28.71 percent and became the operator of the facility. This strategic purchase has complemented Saddle's existing land holdings and pipeline infrastructure placing Saddle in a position to economically produce its wells and develop its land base in this area.



Rainbow East – Keg River Oil



In early 1999 Saddle participated in the shooting of a 3D seismic survey in the Rainbow East area that resulted in the drilling of a horizontal re-entry well located at 7-13-110-5 W6M in December 1999.

Saddle had a 50 percent working interest in this operated well. The well was placed on production in February 2000 at rates of 400 to 450 barrels per day of 48 degree API oil. This well was tied into the facility in May 2000. Saddle also tied in a second well located at 1-23-110-5 W6M to the facility which is scheduled to be equipped with a high volume pump in the second quarter of 2000. Drilling locations exist offsetting each of these wells on Company lands.

In December 1999, Saddle shot a 6 square mile 3D seismic survey over certain of its land holdings in this area, and several attractive vertical and horizontal drilling locations have been identified. This area has year round access, and drilling is expected to begin in the second half of 2000.

SHALLOW GAS

Entering 1999, Saddle's production stream consisted of 100 percent light oil. During 1999, Saddle initiated efforts to diversify its production stream to include natural gas. Natural gas drilling prospects targeting both the Cretaceous Bluesky/Gething formation and a shallower Tertiary horizon were developed during the year and resulted in the drilling of five successful gas wells in the first quarter of fiscal 2000. Saddle's production stream in 2000 is estimated to consist of 70 percent light oil, and 30 percent gas.

Rainbow/Sousa – Bluesky Gas

The Bluesky C Pool produces sweet gas from the Bluesky/Gething formation at depths of 250 to 400 metres. The Bluesky/Gething formation is Cretaceous in age, and is comprised of an inter-bedded sandstone and shale sequence that was deposited in a dynamic shoreline environment. Local channelling within this sequence is observed, which when encountered, has provided the most prolific gas wells in this pool. The porous and permeable nature of these channels has resulted in wells which can initially produce as high as 7 Mmcf/d and recoverable reserves of up to 5 Bcf.

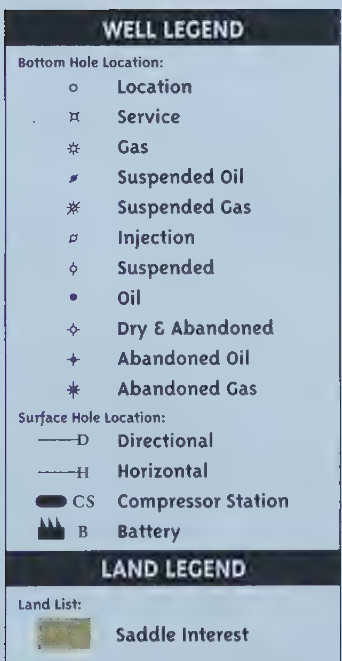
During 1999 Saddle generated a three well drilling program that targeted the channel facies of the Bluesky/Gething formation. These wells were drilled in the first quarter of 2000 and all three were completed as successful gas producers. Saddle had a

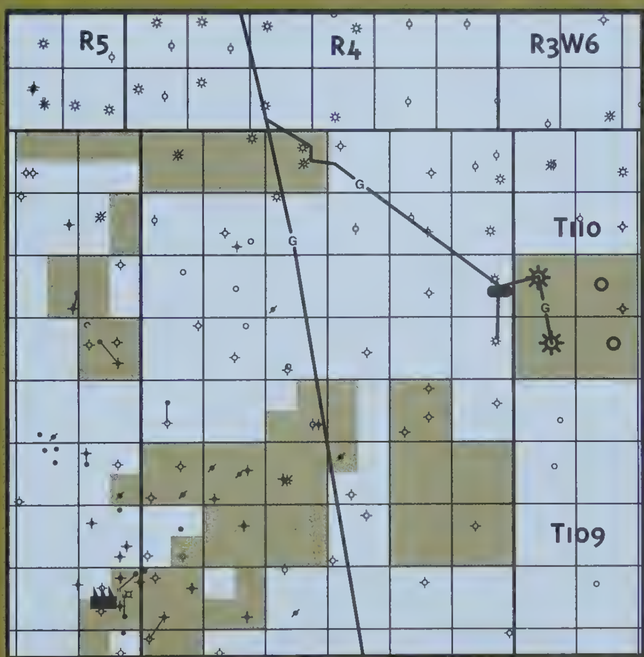
50 percent working interest in two of the wells, and a 43 percent working interest in the third well. The wells have been tied into a Company operated gas compressor station at the 13-36-111-5 W6M facility. Production commenced in April 2000 from all three wells at a combined compressor restricted rate of 2.5 to 3 Mmcf/d. The success of this drilling program has led to the identification of several follow up drilling locations on Company lands. The potential for gas production from this land block is tremendous, and Saddle will continue to develop these low cost gas reserves in 2000.

Rainbow East – Tertiary Gas

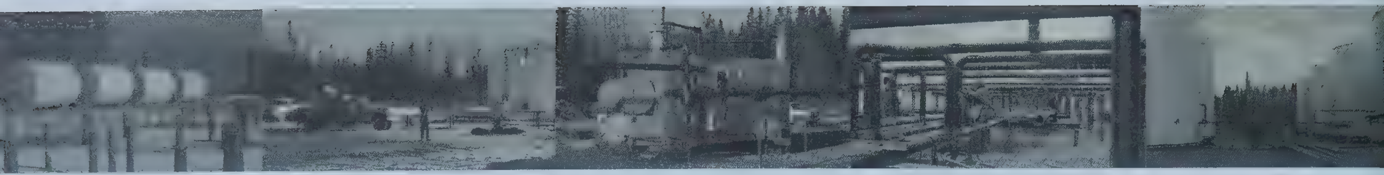
Recent drilling in Township 110 Ranges 3 and 4 W6M has led to the development of an exciting new shallow gas play for the Company. The initial discovery well was actually drilled by Alberta Environmental Protection, who, in 1987, had a gas blowout while drilling a test hole to monitor groundwater conditions in the Hay/Zama Complex. Gas is produced from unconsolidated sand and gravel beds that range in depth from 45 to 75 metres. Initial production rates of up to 1.9 Mmcf/d and first year cumulative gas volumes of up to 0.5 Bcf demonstrate the incredible potential of this emerging gas prospect.

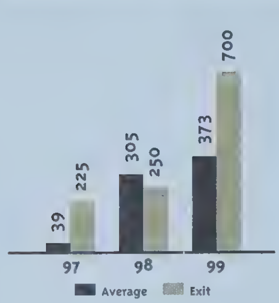
In December 1999, Saddle shot a 2D seismic line across a block of Company lands, and in March 2000, two successful Tertiary gas wells were drilled. These wells have been tied into production facilities and will commence production in the second quarter of 2000. Saddle has working interests of 37.5 percent to 50 percent in 17 sections of prospective land in the vicinity of this prospect and additional exploration work will be carried out in 2000 on this highly exciting and prolific play.



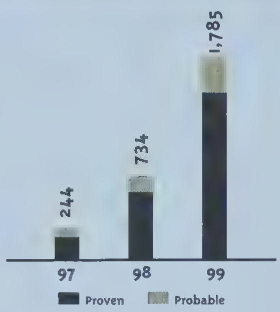


Rainbow East – Tertiary Gas

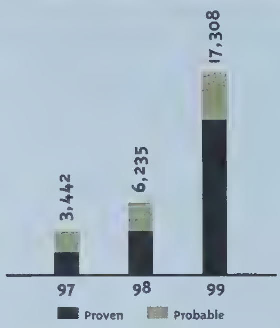




Average Daily Production, *(Boe/d)*



Oil & Gas Reserves at Dec.31, *(Mboe)*



Net Present Value (15 percent DCF) At Dec. 31, *($000)*

Operations Review

Facilities

Many wells in Rainbow produce the majority of their oil with water cuts of 75 percent or higher. Therefore, production facilities capable of transporting and processing high volumes of oil and water, and water disposal wells capable of injecting high volumes of produced water are essential in order to economically develop and produce oil reserves in Rainbow.

In its formative stages, Saddle was able to economically produce its wells to third party production facilities and pay fees for trucking, processing and water disposal. This was achievable due to the fact that water production from these wells was initially low. As water production increased, however, the operating costs associated with the production of each barrel of oil began to significantly increase. Saddle took the first step towards facility infrastructure in March 1999 by constructing flow lines from the majority of our producing wells into a third party processing facility, and a simultaneous negotiation of lower fees.

During the second and third quarters of 1999, Saddle equipped two of its horizontal oil wells with high volume submersible pumps that increased the productivity of these wells from a combined 850 barrels of fluid per day to over 5000 barrels of fluid per day. The increase in total fluid was larger than expected, and the third party facility into which the wells were produced was simply unable to handle the large production volumes from more than one horizontal well at a time.

In order to rectify this problem and to gain total control of its operations, Saddle began design and construction of a significant oil battery located at 13-36-111-6 W6M in the Rainbow/Sousa area during the fourth quarter of 1999. The battery and infrastructure was constructed at a cost of $2.3 million net to Saddle and was commissioned into operation on April 7, 2000. The facility will provide Saddle with the ability to produce its wells to their full capacity. Through the elimination of the majority of third party processing and disposal fees, along with the generation of revenue from third party processing, the facility will reduce Saddle's operating costs significantly in 2000.

Operations and Facilities...

"the foundation for control"

Management of Saddle ... achieve its operating ... control of infras... pipelines and ... of the 13 36 ... most signi... Rainbow ...

In further ... interest ... the Rainbow ... closed in ... in close proximity to existing Saddle pipeline infrastructure, road systems and a solid land b... that contains significant de...

... over time as new oil reserves are developed. In addition to the two operated oil facilities, Saddle owns interests in 71 miles of pipeline infrastructure and ... miles of road system. These assets combine ... dominant producer in both ... Rainbow East ... and w... thereby provide a distinct competitive advantage ... future de... oil and gas reserves in these areas.

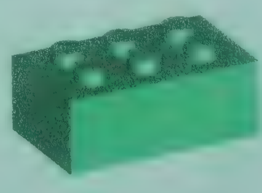
Production

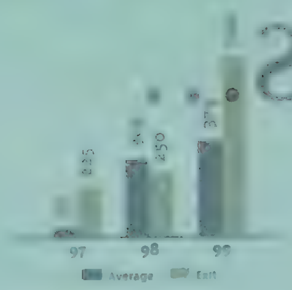
All of Saddle's oil and gas ... the Rainbow area of Northern ... Saddle's total production was 136,01... 22 percent increase from 111,325 Boe produced in 1998. On an average daily basis, this equates ... 305 Boe/d in 1998. Oil ... accounted for 353 Boe/d in ... of Saddle's production ...

... acquisition ... of 1999. Fourth ... 1999 prod... increase of 162 percent from 245 Boe/d during the ... 700 Boe/d compared to ... 1998.

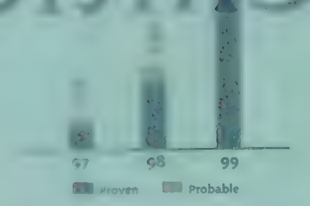
... evaluated by ...

... comprised of 791,000 Boe of ... Boe probable (risked 50%) reserves ... additions replaced 1999 prod... These reserves were added ... were booked and $460,000 rela... battery expansion. Saddle expe... and developing costs should see ... improvement now that production ... have been paid for. High field netback ... amounted to $16.21 per Boe in 1999 ... a recycle ratio of 1.6 times for invested ... This figure is expected to show strong improvement in 2000.





Average Daily Production (Boe/d)



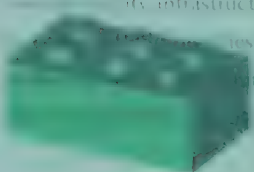
Oil & Gas Reserves at Dec.31, (Mboe)

(15 percent DC

Facilities

...sporting and pro... and wate...

...mically produce its wells to third party ... facilities and pay fees for trucking ... ter disposal. This was achievable ... ow. As water production ... er, the operating costs associated ... tion of each barrel of oil began to ... se. Saddle took the first step ... its infrastructure in March 1999 ... ies from the majority of our ... rd party processing facility, ... ation of lower fees



...e second and third quarters of 1999 ... 850 barrels of fluid per day to over 5000 barrels of fluid per day. The increase in total fluid was larger than expected, and the third party facility into which the wells were produced was simply unabl...

In order to rectify this problem and to gain total control of its operations, Saddle began design and construction of a significant oil battery located at 13-36-111-6 W6M in the Rainbow/Sousa area during the fourth quarter of 1999. The battery and infrastructure was constructed at a cost of $2.3 million net to Saddle and was commissioned into operation on April 7, 2000. The facility will provide Saddle with the ability to produce its wells to their full capacity. Through the elimination of the majority of third party processing and disposal fees, along with the generation of revenue from third party processing, the facility will reduce Saddle's operating costs significantly in 2000.

Management of Saddle firmly believes that to achieve its operating goals in Rainbow, complete control of infrastructure, including facilities, pipelines and roads is essential. The construction of the 13-36 Rainbow/Sousa battery is one of the most significant events in Saddle's history to date. Not only will the facility enable Saddle to maximize the return on its existing reserves, it will greatly enhance the economics of future drilling as well.

To further solidify operations in Rainbow, Saddle obtained operatorship and increased its working interest from 9.17 percent to 28.71 percent in a second oil facility located at 9-25-109-5 W6M in the Rainbow East area. The purchase of this interest closed in March 2000. The 9-25 facility is located in close proximity to existing Saddle pipeline infrastructure, road systems and a solid land base that contains significant development potential.

The 13-36 and 9-25 Saddle operated facilities will process approximately 80 percent of Saddle's oil production. This number is expected to increase over time as new oil reserves are developed. In addition to the two operated oil facilities, Saddle owns interests in 71 miles of pipeline infrastructure and 60 miles of road system. These assets combine to make Saddle the dominant producer in both the Rainbow/Sousa and Rainbow East areas and will thereby provide a distinct competitive advantage in future development of oil and gas reserves in these areas.

Production

All of Saddle's oil and gas production is situated in the Rainbow area of Northern Alberta. During 1999, Saddle's total production was 136,012 Boe, a 22 percent increase from 111,325 Boe produced in 1998. On an average daily basis, this equates to 373 Boe/d in 1999 up from 305 Boe/d in 1998. Oil and natural gas liquids accounted for 353 Boe/d in 1999, representing 95 percent of Saddle's production stream. Natural gas production in 1999 was 198 Mcf/d. The Company had no natural gas production in 1998.

The impact of the Rainbow property acquisition was not felt until the fourth quarter of 1999. Fourth quarter 1999 production averaged 642 Boe/d, an increase of 162 percent from 245 Boe/d during the same period in 1998. Saddle exited 1999 producing an average 700 Boe/d compared to 225 Boe/d at December 31, 1998.

Reserves

Saddle's oil and gas reserves were evaluated by Sproule Associates Limited ("Sproule") as at January 1, 2000. The Company's reserves and future net values are summarized on the next page:

During 1999, Saddle had reserve additions of 989,000 Boe, comprised of 791,000 Boe of proven and 198,000 Boe probable (risked 50%) reserves. The reserve additions replaced 1999 production by 727 percent. These reserves were added at a cost of $10.14 per Boe which incorporates the costs of Saddle's only dry hole drilled in the 1999/2000 winter drilling program ($702,000) against which no reserves were booked and $460,000 relating to the 13-36 battery expansion. Saddle expects that finding and developing costs should see considerable improvement now that production facilities have been paid for. High field netbacks, which amounted to $16.21 per Boe in 1999, result in a recycle ratio of 1.6 times for invested capital. This figure is expected to show strong improvement in 2000.

Summary of Reserves & Present Value

Escalated Prices and Costs

	Oil & NGL's (Mbbls)		Natural Gas (Mmcf)		Present Value of Future Cash Flow from Reserves Discounted at			
	Company Gross	Company Net	Company Gross	Company Net	0% M$	10% M$	15% M$	20% M$
Proven Developed Producing	850.5	680.1	792.0	598.0	14,414	11,495	10,466	9,624
Proven Developed Non-producing	29.2	20.4	1,006.0	713.0	1,370	1,115	1,025	952
Proven Undeveloped	74.4	60.2	38.0	27.0	1,063	692	579	494
Total Proven	954.1	760.7	1,836.0	1,338.0	16,847	13,302	12,071	11,070
Probable	596.2	454.3	509.0	385.0	8,606	6,057	5,238	4,599
Total proven + probable	1,550.3	1,215.0	2,345.0	1,723.0	25,453	19,359	17,308	15,668
Less 50% probable	(298.1)	(227.2)	(254.5)	(192.5)	(4,303)	(3,029)	(2,619)	(2,300)
Proven + 50% probable	1,252.2	987.9	2,090.5	1,530.5	21,150	16,330	14,689	13,368

Escalating Price Forecast

The following table represents an excerpt from price forecasts used by Sproule in their evaluation of Saddle's oil and gas reserves:

Year	WTI at Cushing, Oklahoma ($US/Bbl)	Edmonton Par Price 40° API ($Cdn/Bbl)	Henry Hub ($US/Mmbtu)	Plantgate Alberta Index ($Cdn/Mmbtu)
2000	20.00	27.51	2.55	2.79
2001	20.30	27.13	2.55	2.68
2002	20.60	27.15	2.58	2.65
2003	20.91	27.56	2.61	2.69
2004	21.23	27.98	2.65	2.73
2005	21.55	28.41	2.69	2.77
2006	21.87	28.84	2.73	2.82
2007	22.20	29.28	2.77	2.86

At January 1, 2000, 78 percent of Saddle's reserves were classified as proven. The majority of probable reserves booked relate to better performance from producing wells. The January 1, 2000 Sproule report did not attempt to evaluate the value associated with drilling locations identified by Saddle, nor did it include any evaluation of the successful drilling program completed by Saddle in the first quarter of 2000.

Saddle's reserve life index at January 1, 2000 is calculated to be 6.0 years for proven and 50 percent probable reserves. This figure was derived by dividing year end reserves by annualized 1999 fourth quarter production due to the Rainbow acquisition which was effective October 1, 1999.

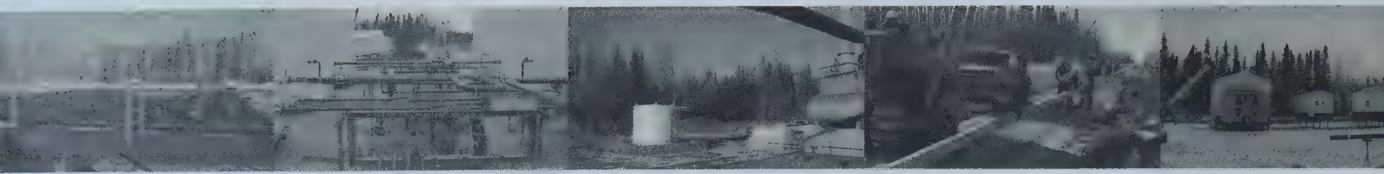
Drilling Summary

The low oil price environment experienced in the first half of 1999 resulted in a restricted drilling budget for Saddle during the year. Instead, Saddle focussed its efforts on lower cost recompletion and workover opportunities. During the first three quarters of 1999, Saddle performed recompletions and workovers on 10 wells (4.22 net) resulting in increased production from 90 percent of the wells. Saddle participated in the drilling of only one well in 1999 (0.50 net) resulting in a dry hole. The well, a horizontal well drilled late in the fourth quarter of 1999, was the first of nine wells drilled in Saddle's 1999/2000 winter drilling program, and was also the only dry hole of the program.

Rainbow Property Acquisition

The acquisition of oil and gas producing properties in the Rainbow area during the second quarter of 1999 was the most important event in Saddle's history to date. On June 23, 1999, Saddle and its joint venture partner completed a $12 million property and production acquisition in the Rainbow Lake area (the "Rainbow Acquisition"). Saddle initially acquired a 5 percent working interest in the Rainbow Acquisition, and had an option to acquire an additional 45 percent within a six month period from closing. On September 30, 1999, Saddle concluded a major equity financing that raised gross proceeds of $6,785,000 and allowed Saddle to close the purchase of the additional 45 percent interest.

The Rainbow Acquisition, net to Saddle's 50 percent interest, cost $6,374,000 after adjustments. Saddle acquired the operated working interest in 14 oil wells and 2 gas wells that provided Saddle with approximately 400 Boe/d of daily production. The reserves associated with the property were evaluated by Sproule at September 1, 1999 and were comprised of 763,000 Boe of proven reserves and 160,000 Boe of probable reserves (risked 50%) for total proven and half probable reserves of 923,000 Boe. The net present value of these reserves, discounted 15%, was evaluated to be $7,255,000. Also included in the purchase was an average working interest of 46.5 percent in approximately 30,000 gross acres of undeveloped land, independently evaluated to be worth an additional of $1.5 million, as well as one operated oil battery, 3 oil satellites, 27 miles of pipelines, and 55 miles of road infrastructure.



The timing of the Rainbow Acquisition was very favourable for Saddle. When Saddle made the offer for the properties, world oil prices had just begun their ascent from the prolonged lows experienced through 1998 and the first four months of 1999. The acquisition price paid by Saddle definitely reflects lower oil prices. By the time Saddle closed the remaining 45 percent of the Rainbow Acquisition, oil prices were in full recovery. Saddle was also fortunate that it was able to secure financing for the purchase of the properties during a window of opportunity that opened for a brief period.

The Rainbow Acquisition was very strategic for Saddle. Firstly, Saddle gained daily production of approximately 400 Boe/d. This brought company production up to the 700 Boe/d level by December 31, 1999 providing Saddle with a solid cash flow base to help fund future development. Secondly, pipeline and facility infrastructure complemented and augmented Saddle's existing infrastructure allowing Saddle to construct an oil treating facility which is imperative for economically producing reserves in Rainbow. Thirdly, Saddle acquired an average 46.5 percent working interest in a large undeveloped land base of approximately 30,000 gross acres. The lands contain tremendous development potential which will create future growth. These three components of the Rainbow Acquisition - the production, infrastructure and land base - have combined with Saddle's existing assets to make Saddle the dominant operator in the northern and eastern parts of the Rainbow basin.

Management's Discussion & Analysis

The following discussion ... review of Saddle's financial and ... and prior years, and ... with Saddle's ... annual report ...

Saddle and an ... and gas properties in the ... Alberta pursuant to an agreement dated ... Saddle initially acquired a 5 percent ... in the Rainbow ... acquire up to ... December 2... 1999 ... the total cost of ... was $6,374,000 ... Special Warrants in September, 1999. (See also "Operations Review – Rainbow Property Acquisition ...

1999 Financial Summary

Selected Financial Information	Dec., 31 1999 $000	$/Boe	Dec., 31 1998 $000	$/Boe
Production volume (Boe, gas 10:1)	136,012		[illegible]	
Oil & gas sales	$ 3,969	$ 29.18	$ [illegible]	$ 18.97
Royalties, net of ARTC	[illegible]	$ 4.65	[illegible]	[illegible]
Operating costs	[illegible]	$ 8.33	[illegible]	[illegible]
Field netback	$ 2,204	$ 16.20	$ 1,340	$ 12.04
General & administrative	$ 443	$ 3.26	$ 177	[illegible]
Interest expense	$ 74	$ 0.54	$ [illegible]	$ 0.32
Cash flow from operations	[illegible]	[illegible]	[illegible]	[illegible]
Per share – basic (wt. avg.)	$ 0.21		[illegible]	
Net earnings (loss)	$ 433	[illegible]	[illegible]	[illegible]
Per share – basic (wt. avg.)	$ 0.05		$ (0.59)	
Capital expenditures	$ 10,017		$ [illegible]	
Working capital surplus (deficiency)	$ (413)		$ [illegible]	
Long term debt	$ 2,404		$ [illegible]	
Total debt: Cash flow	1.67		[illegible]	

The management and staff of Saddle are committed to ensuring that firm financial and operational controls are in place as we move forward with our plans for growth.

Management's Discussion & Analysis

The timing of the Rainbow Acquisition was very [illegible] begun their ascent from the prolonged lows experienced through 1998 and [illegible] first four [illegible] of 1999. The acquisition price paid by Saddle definitely reflects lower oil prices. By the time [illegible] 45 percent of the [illegible] were in full [illegible] Saddle was also fortunate that it was able to secure financing for the purchase of the properties during a window of opportunity that opened for a brief [illegible]

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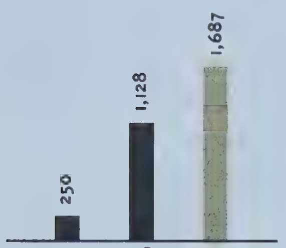
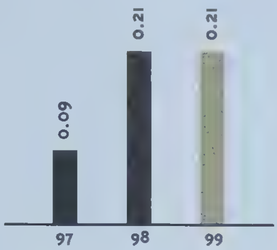
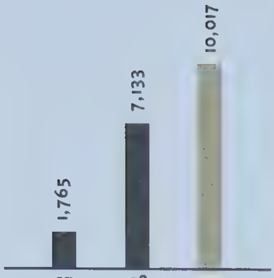
The management and staff of Saddle are committed to ensuring that firm financial and operational controls are in place as we move forward with our plans for growth.



Cash Flow from Operations, *($000)*



Cash Flow Per Share, *($)*



Capital Expenditures, *($000)*

The following discussion is management's review of Saddle's financial and operating results for 1999 and prior years, and should be read in conjunction with Saddle's financial statements contained in this annual report.

Significant Transaction

Saddle and an industry partner acquired certain oil and gas properties in the Rainbow Lake area of Alberta pursuant to an agreement dated June 8,1999. Saddle initially acquired a 5 percent working interest in the Rainbow properties and had an option to acquire up to an additional 45 percent prior to December 23, 1999. Saddle exercised this option on October 7, 1999, and increased its working interest to 50 percent. The total cost of this acquisition net to Saddle was $6,374,000. The acquisition was financed through a private placement of common equity in June of 1999, followed by a private placement of convertible Special Warrants in September, 1999. (See also "Operations Review – Rainbow Property Acquisition").

1999 Financial Summary

Selected Financial Information	Year Ended Dec., 31 1999 $000	$/Boe	Year Ended Dec., 31 1998 $000	$/Boe
Production volume (Boe, gas 10:1)	136,012		111,325	
Oil & gas sales	$ 3,969	$ 29.18	$ 2,109	$ 18.97
Royalties, net of ARTC	$ 632	$ 4.65	$ 166	$ 1.50
Operating costs	$ 1,133	$ 8.33	$ 603	$ 5.43
Field netback	$ 2,204	$ 16.20	$ 1,340	$ 12.04
General & administrative	$ 443	$ 3.26	$ 177	$ 1.59
Interest expense	$ 74	$ 0.54	$ 36	$ 0.32
Cash flow from operations	$ 1,687	$ 12.40	$ 1,128	$ 10.13
Per share – basic (wt. avg.)	$ 0.21		$ 0.21	
Net earnings (loss)	$ 433	$ 3.18	$ (3,145)	$ (28.25)
Per share – basic (wt. avg.)	$ 0.05		$ (0.59)	
Capital expenditures	$ 10,017		$ 7,133	
Working capital surplus (deficiency)	$ (413)		$ (5)	
Long term debt	$ 2,404		$ 1,050	
Total debt: Cash flow	1.67		0.94	

Production

During 1999, Saddle's total production was 136,012 Boe, a 22 percent increase from 111,325 Boe produced in 1998. On an average daily basis, this equates to 373 Boe/d in 1999 up from 305 Boe/d in 1998. Oil and natural gas liquids accounted for 353 Bbls/d in 1999, representing 95 percent of Saddle's production Stream, Natural gas production in 1999 was 198 Mcf/d. The Company had no natural gas production in 1998.

The impact of the Rainbow property acquisition was not felt until the fourth quarter of 1999. Fourth quarter 1999 production averaged 642 Boe/d, an increase of 162 percent from 245 Boe/d during the same period in 1998. Saddle exited 1999 producing an average 700 Boe/d compared to 225 Boe/d at December 31, 1998.

Gross Revenue

Saddle produces a very high quality, light crude oil ranging in gravity from 38 to 48 degrees API, and receives premium wellhead prices for it's oil of Edmonton par postings less $1.00 to $1.25 per barrel for quality differential and transportation. In 1999, Saddle's average oil price was Cdn. $28.87 per Bbl up 52 percent from $18.97 per Bbl in 1998. Saddle's natural gas production was sold on the spot markets in 1999 for an average price of $3.13 per Mcf, Natural gas production will be a larger component of Saddle's production stream in 2000, and marketing strategies will be explored during the year.

Gross revenue in 1999 was $3,969,074, an increase, of 88 percent over 1998 reported revenue of $2,108,978. This increase is attributed to a 54 percent increase in product price and a 22 percent increase in production volume over the 1998 fiscal period. Fourth quarter comparisons of gross revenue show an increase of 414 percent in 1999 with gross revenue of $2,019,171 versus $392,861 in 1998.

Royalties

Net royalties of $631,803 increased 280 percent over 1998 net royalties of $166,482. On a Boe basis, the increase was 210 percent in 1999 to $4.65 from $1.50 per Boe in 1998. This increase is the result of increased product prices and the absence of Alberta Royalty Tax Credit (ARTC) eligibility on production from the new wells acquired through the Rainbow property purchase. Net of ARTC, royalties were 15.9 percent of gross revenues in 1999 compared to 7.9 percent in 1998.

Operating Costs

Operating costs were $1,132,808 in 1999, up from $603,065 in 1998. On a Boe basis, operating costs increased by 53 percent to $8.33 per Boe in 1999, from $5.43 in 1998. The most significant components of this increase were third party processing charges and water trucking charges incurred at third party facilities. Operating costs will be reduced significantly in 2000 as Saddle transfers the majority of its oil production from third party facilities to its newly constructed facility.

General & Administrative

General and administrative cost of $442,649 ($3.26 per Boe) was recorded in 1999, up 150 percent from $177,093 ($1.59 per Boe) in 1998. The increase was due mainly to staff additions and office space requirements reflective of the growth in the Company's operations. In 1999, Saddle capitalized $183,000, or 21 percent, of gross G&A costs relating to exploration and development activity.

Interest expense in 1999 was $73,503, an increase of $37,940 over 1998 interest expense. This is the direct result of increased borrowings related to ongoing operations. At year-end, Saddle increased its bank line of credit from $1,500,000 to $6,000,000 and changed lending institutions. In March 2000, Saddle's line of credit was further increased to $7,000,000.

Cash Flow From Operations

Cash flow from operations in 1999 was $1,686,774, or $0.21 per share, an increase of 49 percent over cash flow from operations in 1998 of $1,128,378. On a Boe basis, cash flow represented a $12.40 netback in 1999, up from $10.13 per Boe in 1998. Increased cash flow resulting from both increased commodity prices and increased production volumes arising from the Rainbow property acquisition was experienced during the fourth quarter of 1999. Cash flow was $760,098, up 280 percent from 1998 Q4 cash flow of $200,175.

Net Earnings

Net earnings were $433,492, or $0.05 per share in 1999. This compares to a net loss in 1998 of $3,145,056, or $0.59 per share. The loss in 1998 was attributable to a ceiling test write down. Depletion, depreciation and amortization (DD&A) increased from $818,471 in 1998 to $1,253,282 in 1999. On a Boe per basis,,DD&A rate increased 25 percent from $7.36 in 1998 to $9.21 in 1999.

Tax Pools

At the end of 1999 Saddle's tax pools exceeded its net book value of petroleum and natural gas assets. This asset has not been recorded for accounting book purposes. The following table is an approximate breakdown of year-end tax pools.

COGPE	$ 6,535,612
CDE	$ 2,328,226
CEE	$ 1,636,903
CCA pools	$ 2,763,160
Loss carry forward	$ 993,896
Share issue costs	$ 896,656
Total	$15,154,453

Liquidity and Capital Resources

Capital expenditures in 1999 totaled $10,017,170, an increase of 71 percent from 1998 expenditures of $7,132,828. Included in the 1999 figure was $6.37 mm spent on the acquisition of the Rainbow property. The majority of Saddle's capital program was expended in the fourth quarter of 1999. Capital expenditures were funded by cash flow of $1.68 mm, increased debt and working capital of $1.76 mm and the net proceeds of a private placement completed on September 30, 1999 of $6.57 million.

During 1999, Saddle established a credit facility with a Canadian chartered bank with a borrowing limit of $6.0 OM at year-end. Subsequent to year-end this facility was increased to $7.0 OM. As at December 31, 1999 Saddle had drawn $2,404,000 on the credit facility.

Business Risks

Crude oil and natural gas operations involve certain risks and uncertainties. These include uncertainty of discovering commercial quantities of new reserves, exposure to volatile commodity prices, fluctuations in foreign exchange and interest rates and the effects of government regulation and taxation.

The Company is continually reviewing means to mitigate these risks. Saddle focuses activities in areas where it believes it has sufficient technical expertise to be successful while maintaining an inventory of prospects. The Company has pursued exploration and development in its core area of Rainbow Lake in northern Alberta, where it has a good understanding of the geological risks and potential. The Company maintains insurance coverage to protect against pollution, well blowouts and other types of unanticipated occurrences that effect the Company's assets. Risks associated with commodity prices, interest and exchange rates are generally beyond the control of the Company; however, as the Company continues to grow it will look at various hedging products that will reduce the volatility in these factors. Environmental and safety risks are addressed by compliance with government regulations as well as adoption and compliance of the Company's safety and environmental standards policy.

Management's Report

The annual report and financial statements have been prepared by management who, where necessary, have made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges responsibility for the fairness, integrity and objectivity of all information contained in the annual report, including the financial statements.

As a means of fulfilling its responsibility, management relies on the Company's system of internal control. This system has been established to ensure, within reasonable limits, that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization and that accounting records provide a solid foundation from which to prepare the financial statements.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, the majority of which are non-management directors. This committee meets periodically, reviews the scope of the external audit, the adequacy of the system of internal control and the appropriateness of the financial reporting and then makes its recommendations to the Board. Based on those recommendations, the Board of Directors approves the financial statements.

William S. Ward
President and Chief Executive Officer

April 9, 2000

Auditors' Report to the shareholders

We have audited the balance sheets of Saddle Resources Inc. as at December 31, 1999 and 1998 and the statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Calgary, Canada
March 17, 2000

Balance Sheets

Years ended December 31, 1999 and 1998	1999	1998
Assets		
Current assets:		
Cash and term deposits	$ 491,513	$ 1,539,576
Accounts receivable	4,123,974	2,037,557
Prepaid expenses and deposits	180,501	58,836
	4,795,988	3,635,969
Capital assets (note 4)	12,341,197	3,498,351
	$ 17,137,185	$ 7,134,320
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,208,494	$ 3,641,050
Bank loan (note 5)	2,403,921	1,050,000
Provision for future site restoration	111,523	32,565
Shareholders' equity:		
Capital stock (note 6):		
Common shares	5,916,258	5,510,551
Special warrants	6,163,343	--
	12,079,601	5,510,551
Deficit	(2,666,354)	(3,099,846)
	9,413,247	2,410,705
Commitments (note 11)		
	$ 17,137,185	$ 7,134,320

See accompanying notes to financial statements.

Approved by the Board:

William S. Ward
Director

Kenneth L. Broadhurst
Director

Statements of Operations and Retained Earnings (Deficit)

Years ended December 31, 1999 and 1998	1999	1998
Revenue:		
Petroleum and natural gas sales	$ 3,969,074	$ 2,108,978
Royalties, net of ARTC	(631,803)	(166,482)
Interest	3,294	1,603
	3,340,565	1,944,099
Expenses:		
Operating	1,132,808	603,065
General and administrative	442,649	177,093
Interest	73,503	35,563
Depletion and depreciation	1,253,282	818,471
Capital taxes	4,831	–
Write-down in carrying value of capital assets	–	4,600,000
	2,907,073	6,234,192
Earnings (loss) before income taxes	433,492	(4,290,093)
Future income taxes (reduction) (note 7)		(1,145,037)
Net earnings (loss)	433,492	(3,145,056)
Retained earnings (deficit), beginning of year	(3,099,846)	45,210
Deficit, end of year	$ (2,666,354)	$ (3,099,846)

Earnings per share (note 6)

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 1999 and 1998	1999	1998
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 433,492	$ (3,145,056)
Add (deduct) non-cash items:		
Depletion and depreciation	1,253,282	818,471
Write-down in carrying value of capital assets	–	4,600,000
Future income taxes (reduction)	–	(1,145,037)
Funds from operations	1,686,774	1,128,378
Change in non-cash working capital related to operations	(1,083,100)	(323,451)
	603,674	804,927
Investing:		
Additions to capital assets	(10,017,170)	(5,384,828)
Notes receivable	–	(57,500)
Change in non-cash working capital related to investing	442,462	847,981
	(9,574,708)	(4,594,347)
Financing:		
Issuance of common shares and warrants for cash, net of issue costs	6,569,050	1,154,937
Net cash acquired on business combination with Netalco Corporation (note 3)	–	1,557,650
Increase in bank loan	1,353,921	1,050,000
	7,922,971	3,762,587
Decrease in cash	(1,048,063)	(26,833)
Cash, beginning of year	1,539,576	1,566,409
Cash, end of year	$ 491,513	$ 1,539,576

Cash includes cash and term deposits

See accompanying notes to financial statements.

1. **Basis of presentation:**

Saddle Resources Inc. (the "Company") was incorporated under the laws of the province of Alberta on January 4, 1996. On October 20, 1998 Netalco Corporation ('Netalco') acquired all of the issued and outstanding shares of the Company, a private company in the business of exploration, development and production of petroleum and natural gas properties. As described in note 3, these financial statements have accounted for the business combination as a reverse takeover and the Company is considered to have acquired Netalco. Accordingly, these financial statements reflect the results of operations of the Company from inception.

On January 13, 1999, the Company consolidated its common shares on a 5 for 1 basis. All share and per share amounts in the financial statements reflect the consolidated share structure.

2. **Significant accounting policies:**

(a) Capital assets:

The Company follows the full cost method of accounting for its petroleum and natural gas operations, whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized into cost centres. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs together with production and related equipment, excluding costs relating to unproven properties, are depleted and depreciated using the unit-of-production method based on estimated proven petroleum and natural gas reserves before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, gross proven natural gas reserves and production are converted to equivalent volumes of petroleum based on the approximate relative energy content.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the year end, and the costs of unproven properties less impairment. Future net revenues are undiscounted and are calculated after deducting general and administrative costs, financing costs, income taxes and site restoration and abandonment costs. Capitalized costs in excess of this ultimate recoverable amount are charged to earnings.

Proceeds on the disposition of petroleum and natural gas properties are applied against capitalized costs, with gains or losses not ordinarily recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Depreciation of furniture and office equipment is provided using the declining balance method at rates varying between 20 percent and 30%.

(b) Interest in joint ventures:

Some of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(c) Future site restoration and abandonment costs:

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. The period charge is included in depletion and depreciation expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Use of estimates:

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

(e) Income taxes:

The Company has adopted the liability method of tax allocation accounting. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

An estimate of the future income tax liability to be incurred on flow-through share arrangements is recognized and charged to share capital.

3. Business combination:

Effective October 20, 1998, Netalco acquired all of the issued and outstanding common shares of the Company in exchange for 5,171,504 common shares of Netalco. As the shareholders of the Company obtained control of approximately 78 percent of the total issued and outstanding shares of Netalco the share exchange has been recorded as an acquisition of Netalco by the Company using the purchase method. The acquisition was accounted for as follows:

Allocated:		
Cash and term deposits	$	1,609,588
Non-cash working capital		28,199
Capital assets		50,000
	$	1,687,787
Cost of acquisition:		
Share capital issued	$	1,635,849
Share issue costs		51,938
	$	1,687,787

4. Capital assets:

	1999	1998
Petroleum and natural gas interests	$ 18,872,413	$ 8,970,170
Other	163,904	48,976
	19,036,317	9,019,146
Accumulated depletion and depreciation	(6,695,120)	(5,520,795)
	$ 12,341,197	$ 3,498,351

During the year ended December 31, 1999, the Company capitalized $183,000 (1998 – $110,000) of general and administrative costs related to exploration and development activity.

At the year ended December 31, 1999, the depletion calculation excluded unproven properties of $1,696,000 (1998 – $515,000). Future development costs of proven undeveloped reserves of $1,167,000 (1998, $437,000) are included in depletion and depreciation calculations.

As a result of a ceiling test calculation performed with an effective date of December 31, 1998, it was determined that the net book value of the Company's petroleum and natural gas properties exceeded the estimated future net revenues from proved reserves calculated under the full cost accounting guideline and a write-down of $4,600,000 was recorded as additional depletion. At December 31, 1999, using year end prices, there is no write-down required.

At December 31, 1999 the estimated future site restoration costs to be accrued over the remaining proved reserves are $1,035,000 (1998 – $146,000).

5. Bank loan:

At December 31, 1999, the Company has a financing arrangement with a Canadian chartered bank for a $6,000,000 extendible revolving term production loan with interest payable monthly at bank prime rate. The facility is secured by a $35,000,000 floating charge debenture over all of the assets of the Company and a general assignment of book debts. At December 31, 1999, the Company had outstanding advances on the revolving loan of $2,403,921.

Effective March 1, 2000, the Company increased the credit facility to $7,000,000 reducing monthly to $6,000,000 by September 30th. Interest payable on the total facility during the period from March 1, 2000 to September 30, 2000 is at the bank's prime rate plus 1/2 percent.

6. Share capital:

(a) Authorized:

Unlimited number of common shares, without nominal or par value

Unlimited number of preferred shares, without nominal or par value

(b) Common shares issued:

	Number of Shares		Amount
Common shares:			
Balance, December 31, 1996	3,300,000	$	824,854
Private placement	300,000		180,000
Private placement of flow-through shares	1,200,000		962,000
Income tax effect on flow-through shares			(429,052)
Share issue costs			(5,229)
Balance, December 31, 1997	4,800,000		1,532,573
Issued for oil and gas assets	2,000,000		1,748,000
Issued on exercise of stock options	77,000		26,950
	6,877,000		
Common share capital of Netalco at time of acquisition	1,475,310		–
Deemed share capital on acquisition of Netalco	5,171,504		1,635,849
Private placement of flow-through shares	1,088,900		1,192,790
Income tax effect on flow-through shares			(532,223)
Share issue costs (net of income tax effects of $28,915)			(35,888)
Less note receivable from officers of the Company			(57,500)
Balance, December 31, 1998	7,735,714		5,510,551
Private placement, net of issue costs	900,000		405,000
Options exercised	1,504		707
Balance, December 31, 1999	8,637,218	$	5,916,258

In 1998, the Company advanced $57,500 to two officers and directors to acquire shares in the Company. The notes bear interest at 5 percent per annum, payable at the end of each year, with the principal payable on or before December 31, 2003.

(c) Special warrants:

	Number of Warrants		Amount
Flow-through special warrants	1,350,000	$	1,417,500
Special warrants	5,650,000		5,367,500
Share issue costs	–		(621,657)
Balance December 31, 1999	7,000,000	$	6,163,343

Pursuant to an offering memorandum dated September 15, 1999, the Company issued 5,650,000 special warrants and 1,350,000 flow-through special warrants at $0.95 and $1.05 each, respectively. Each special warrant is convertible into one common share at no additional cost. On January 21, 2000 a prospectus qualified for distribution of the shares issuable upon exercise of these warrants.

(d) Flow-through shares:

In accordance with the terms of the Company's various flow-through share offerings, and pursuant to certain provisions of the Income Tax Act, the Company committed to renounce, for income tax purposes, exploration and development expenditures to the purchasers of its flow-through shares in the aggregate amount of $1,417,500 (1998 – $1,192,790). At December 31, 1999, $931,334 (1998 – $1,192,790) of renounced flow-through expenditures were remaining to be incurred in 2000.

(e) Stock options:

The directors of the Company have approved stock options whereby common shares of the Company will be available for purchase by directors, officers, employees, and other persons providing services to the Company. At December 31, 1999, a total of 638,496 options were authorized and have been granted to purchase 638,496 (1998 – 497,333) common shares of the Company at prices ranging from $0.46 to $1.20 per share at various dates to August 24, 2004. These options have a weighted average remaining contractual life of 3.6 years.

	1999		1998	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options out standing, beginning of year	**497,333**	$ **1.35**	114,000	$ 2.64
Granted	**240,000**	**0.58**	400,000	0.99
Exercised	**(1,504)**	**0.47**	(16,667)	1.50
Cancelled or expired	**(97,333)**	**2.83**		
Stock options outstanding, end of year	**638,496**	**0.83**	497,333	1.35
Exercisable at year end	**117,860**	**0.91**	117,073	2.44

(f) Net earnings (loss) and cash flows from operations per share:

	1999	1998
Net earnings (loss) per share – basic	$ **0.05**	$ (0.59)
Net earnings (loss) per share – fully diluted	**0.04**	(0.59)
Cash flow from operations – basic	**0.21**	0.21
Cash flow from operations – fully diluted	**0.16**	0.21
Weighted average number of shares outstanding (000's) – basic	**8,187**	5,369
Weighted average number of shares outstanding (000's) – fully diluted	**10,497**	5,384

Earnings (loss) and cash flow per common share have been calculated using the weighted average number of Netalco common shares plus the additional common shares issued to acquire the Company based on the weighted average number of the Company's shares outstanding for each year, after giving effect to the share consolidation.

7. Income taxes:

	1999	1998
Tax expense at 44.6 percent of earnings (loss) before tax	$ 193,337	$ (1,914,239)
Crown payments not deductible for tax purposes	405,045	176,308
Resource allowance	(234,189)	(124,511)
Alberta Royalty Tax Credit	(170,358)	(117,668)
Tax benefits on prior year losses	(197,608)	–
Tax benefit on current year losses not recognized	–	833,936
Other	3,773	1,137
	–	$ (1,145,037)

The components of the net future income tax asset at December 31, 1999 and 1998:

	1999	1998
Future income tax assets:		
Non-capital loss carry forwards	$ 443,480	$ 448,680
Share issue costs	401,088	123,037
Tax basis of capital assets in excess of carrying value	319,055	835,261
Other	37,303	(4,016)
Valuation allowance	(1,201,596)	(1,402,962)
Net future income tax asset	$ –	$ –

8. Related party transactions:

(a) In June 1999, the Company and a joint interest partner who held 21 percent of the Company's common shares, acquired certain oil and gas properties for $12 million. The Company initially acquired a 5 percent interest in these properties and then, on October 7, 1999, exercised an option to acquire an additional 45 percent interest from its joint interest partner for an amount equal to 45 percent of the acquisition cost of the properties of $12,000,000 plus accrued interest.

(b) During 1998, the Company acquired certain oil and gas properties from a joint interest partner, one of the officers and directors of which is also an officer and director of the Company, through the issuance of 2,000,000 common shares of the Company and $3,559 in cash. The value of the transaction was based on independent engineering evaluations. Prior to the effective date of the transaction, the joint interest partner held approximately 4 percent of the Companyís common shares.

The joint interest partner participates with the Company in certain oil and natural gas joint ventures on the same terms and conditions as other industry partners. As at December 31, 1999, the Company had a current receivable in the amount of $2,431,846 (1998 – $781,608) from the joint interest partner, which was received subsequent to year end. In addition, an administration fee of $58,000 was recovered from the joint interest partner during the year.

9. Cash payments:

The following cash payments have been deducted from earnings:

	1999	1998
Interest paid	$ 73,503	$ 35,563
Taxes paid	–	–

10. Financial instruments

The Company's exposure to financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements.

The fair values of financial assets and liabilities that are included in the balance sheet approximate their carrying amounts due to the short-term maturity of those instruments.

Substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

11. Commitments:

At December 31, 1999, the Company has committed to future minimum payments under various operating leases that cover office facilities and a vehicle for each of the next five years of:
2000 – $131,000; 2001 – $131,000: 2002 – $129,000; 2003 – $121,000 and 2004 – $40,000.

Back row from left to right: Greg Parry, Kevin Bibault, Darwin Little, Karen Bolduc and Lindsay Kilgour. Front row from left to right: Linda Pullar, Bill Ward and Ken Broadhurst. Missing: Bill Cooke.

Corporate Information

Management

William S. Ward
President & CEO

Kenneth L. Broadhurst
Senior Vice President

Kevin D. Bibault
Vice President of Engineering

Darwin Little
Controller

Directors

J. Cameron Bailey

Troy K. Brazzoni

Matthew J. Brister

Kenneth L. Broadhurst

Curtis A. Hartzler

William S. Ward

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Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Independent Engineers

Sproule Associates Limited
Calgary, Alberta

Registrar & Transfer Agent

Valiant Corporate Trust Company
Calgary, Alberta

Abbreviations

$CDN	Canadian dollar
$US	United States dollar
API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credit
Bcf	Billions of cubic feet
Boe	Barrels of oil equivalent (10 Mcf of natural gas being equivalent to one barrel of oil)
Boe/d	Barrels of oil equivalent per day
Bbls	Barrels of oil or natural gas liquids
Bbls/d	Barrels per day
Mbbls	Thousands of barrels
Mboe	Thousands of barrels of oil equivalent
Mcf	Thousands of cubic feet
Mcf/d	Thousands of cubic feet per day
Mmbtu	Millions of British thermal units
Mmcf	Millions of cubic feet
Mmcf/d	Millions of cubic feet per day
Mstb	Thousand stock tank barrels
NGL	Natural Gas Liquids
NPV	Net Present Value
WTI	West Texas Intermediate

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